

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-08  
FRB-03 INR-10 NSAE-00 ICA-11 XMB-02 OPIC-03 SP-02  
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01  
/101 W

-----089570 232153Z /45

R 231940Z AUG 78  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 1297  
DEPT TRSY  
INFO AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY OTTAWA  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO

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USEEC

USOECN ALSO FOR EMBASSY  
DEPARTMENT PASS CEA AND FRB

E.O. 11652: NA  
TAGS: EFIN, ECON, GW  
SUBJ: EMBASSY FORECAST OF 1978 AND 1979 GERMAN GNP

1. SUMMARY: WE ARE PROJECTING 1978 GERMAN REAL GNP  
GROWTH AT 2.5 PERCENT AND 1979 GROWTH AT 3.3 PERCENT--  
ASSUMING IMPLEMENTATION ON SCHEDULE OF A FISCAL  
STIMULUS ALONG THE LINES PROPOSED BY THE GERMAN  
GOVERNMENT (SEE BONN 13867 AND 13947). WE ARE PROJECTING  
A MODERATE INCREASE IN INDUSTRIAL PRODUCTION FOR THE  
REMAINDER OF THIS YEAR. LARGELY BECAUSE OF STATISTICAL  
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FACTORS AND A LARGER NUMBER OF WORKING DAYS WE EXPECT  
FIRST HALF 1978 GNP GROWTH TO EXCEED THAT OF THE SECOND  
HALF, HOWEVER. IN 1979, ON THE OTHER HAND, WE EXPECT  
GROWTH TO BE CONCENTRATED IN THE FIRST HALF AS INCREASED  
CHILDREN ALLOWANCES AND TAX REDUCTIONS BECOME EFFECTIVE  
AND SPENDING UNDER THE GOVERNMENT'S MEDIUM TERM  
INVESTMENT PROGRAM FINALLY HITS ITS PEAK. FOR A

CAUTIONING NOTE ON THE MARGIN OF ERROR IN GERMAN GNP PROJECTIONS AT THIS TIME, SEE PARA 6 BELOW.  
END SUMMARY.

2. WITH OUR 2.5 PERCENT REAL GROWTH FORECAST FOR 1978, THE EMBASSY (TOGETHER WITH THE KIEL AND HAMBURG INSTITUTES AND THE ECONOMICS MINISTRY) IS AT THE LOWER END OF THE 2.5 - 3.0 PERCENT 1978 GNP PROJECTIONS OF MOST GERMAN FORECASTS. THERE ARE CONSIDERABLE VARIATIONS, HOWEVER, IN THE FORECAST FOR THE INDIVIDUAL COMPONENTS. OURS BREAK DOWN AS FOLLOWS:

TABLE I  
1978 GERMAN REAL GNP  
(PERCENT GROWTH OVER 1977,  
AT CONSTANT 1970 PRICES)

PRIVATE CONSUMPTION	3.4
GOVERNMENT CONSUMPTION	2.8
INVESTMENT IN EQUIPMENT	4.8
CONSTRUCTION	3.4
CHANGE IN INVENORIES 1/	MINUS 0.3
EXPORTS	4.0
IMPORTS	6.2
NET FOREIGN BALANCE 1/	MINUS 0.4

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GNP 2.5

1/ SWING FROM 1977 AS A PERCENTAGE  
OF 1977 GNP

OUR PRIVATE CONSUMPTION FORECAST IS AT THE UPPER RANGE OF GERMAN FORECASTS. ASIDE FROM PRIVATE CONSUMPTION, THE STAR PERFORMER THIS YEAR IS THE CONSTRUCTION SECTOR (WHICH INCLUDES MOST PUBLIC INVESTMENT). THE PERFORMANCE OF THE CONSTRUCTION INDUSTRY IS SOMEWHAT MASKED BY THE PERCENTAGE FIGURES IN TABLE I DUE TO PERFORMANCE OF THIS SECTOR IN 1977 WHEN IT ENDED THE YEAR AT A LOWER LEVEL THAN IT HAD STARTED. A BETTER PICTURE MAY BE PROVIDED BY A 4TH QUARTER 1977 TO 4TH QUARTER 1978 CONPARISON. ON THIS GASIS WE PROJECT THE CONSTRUCTION SECTOR TO GROW BY 7.6 PERCENT DURING THE YEAR. THE SITUATION IS THE REVERSE FOR INVESTMENT IN EQUIPMENT WHERE THE RELATIVELY STRONG GROWTH SHOWN IN TABLE I RESULTS IN PART FROM THE GROWTH PATH DURING 1977. ON A FOURTH QUARTER TO FOURTH QUARTER BASIS WE PROJECT INVESTMENT IN EQUIPMENT TO INCREASE BY ONLY

3.1 PERCENT DURING THE YEAR. WE ARE PROJECTING ADDITIONS  
TO INVENTORIES FOR 1978 AT DM 4.7 BILLION (AT 1970  
PRICES) DOWN SHARPLY FROM DM 7.5 BILLION DURING 1977.  
THE MARGIN OF ERROR IN THIS PROJECTION IS PARTICULARLY  
LARGE SINCE IN THE ABSENCE OF VERY MEANINGFUL INVENTORY  
STATISTICS IT IS LARGELY CALCULATED AS A REMAINDER.  
WE PROJECT THE CONSTANT PRICE NET FOREIGN BALANCE AT  
DM 23.5 BILLION FOR 1978. ON A 4TH QUARTER TO 4TH  
QUARTER BASIS OUR 1978 PROJECTION RESULTS IN THE SAME  
2.5 PERCENT GNP GROWTH RATE DURING 1978 AS FOR CALENDAR  
1978 OVER 1977.  
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R 231940Z AUG 78  
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AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO

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3.ON A HALF YEARLY BASIS, OUR 1978 PROJECTION  
BREAKDOWN IS AS FOLLOWS:

PRIVATE CONSUMPTION	3.2	2.4
GOVERNMENT CONSUMPTION	3.8	2.0
INVESTMENT IN EQUIPMENT	1.0	4.7
CONSTRUCTION	2.6	11.9
INVENTORIES 1/	PLUS 0.2	MINUS 0.4
EXPORTS	4.4	4.7
IMPORTS	5.1	7.1

NET FOREIGN BALANCE 1/ 0.0 MINUS 0.3

GNP 3.2 2.2

1/ SWING FROM PREVIOUS HALF YEAR AS PERCENTAGE  
OF PREVIOUS HALF YEAR'S GNP  
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THE HIGHER GROWTH SHOWN IN TABLE II FOR THE FIRST HALF OF 1978 THAN FOR THE SECOND CAN BE SOMEWHAT MISLEADING. IN OUR PROJECTIONS WE USE BUNDESBANK SEASONAL ADJUSTMENTS AND FOLLOW THE BUNDESBANK PRACTICE (IN REIHE4) OF USING (AND PROJECTING) QUARTERLY GNP DATA SEASONALLY ADJUSTED FOR THE NORMAL VARIATION IN WORKING DAYS BETWEEN QUARTERS, BUT NOT FURTHER ADJUSTED FOR ABNORMAL CONCENTRATION OF HOLIDAYS IN ANY ONE QUARTER. IN 1978 THERE HAS BEEN AN ABNORMAL LACK OF HOLIDAYS IN THE SECOND QUARTER (3 PERCENT MORE WORKING DAYS THAN IN 1977 AND 2 PERCENT MORE WORKING DAYS THAN NORMALLY IN THE SECOND QUARTER). THIS BOOSTS OUR SECOND QUARTER GROWTH ESTIMATE TO AN ANNUAL RATE OF 6.6 PERCENT WHILE ON A FULLY WORKDAY ADJUSTED BASIS IT PROBABLY WOULD BE ZERO OR NEGATIVE. IT ALSO HELPS TO EXPLAIN THE LARGE DIFFERENCE BETWEEN THE HALF YEARLY GNP PROJECTION AND THE BUNDESBANK SEASONALLY ADJUSTED INDUSTRIAL PRODUCTION STATISTICS (WHICH ARE FULLY WORKDAY ADJUSTED). FOR THE REMAINDER OF THE YEAR WE EXPECT GRADUAL INCREASES IN INDUSTRIAL PRODUCTION, BUT IN TERMS OF QUARTERLY GNP PROJECTIONS THIS TRANSLATES TO ANNUAL RATES OF PLUS 0.5 PERCENT FOR THE FIRST QUARTER, PLUS 6.6 PERCENT FOR THE SECOND, MINUS 0.8 PERCENT FOR THE THIRD, AND PLUS 4.1 PERCENT FOR THE FOURTH QUARTER.

4. OUR 1979 PROJECTION ASSUMES IMPLEMENTATION ON SCHEDULE OF A FISCAL STIMULUS ALONG THE LINES OF THE GOVERNMENT'S POST-SUMMIT PROGRAM, CONTINUING BASICALLY ACCOMMODATING MONETARY POLICIES, NO MAJOR STRIKES AND MODERATE 1979 WAGE SETTLEMENTS (ABOUT 5.5 PERCENT INCREASE), A MODERATE EXPANSION IN THE LEVEL OF WORLD TRADE AND NO FURTHER SHARP APPRECIATION OF THE DM. ON LIMITED OFFICIAL USE

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THIS BASIS WE PROJECT 1979 REAL GROWTH OVER 1978 AT ABOUT 3.3 PERCENT WHICH PLACES OUR PROJECTION VERY SLIGHTLY BELOW THE CURRENT CONSENSUS OF PRACTICALLY ALL

GERMAN FORCASTERS AT 3.5 PERCENT.

TABLE III  
1979 GERMAN REAL GNP  
(PERCENTAGE GROWTH OVER 1978  
AT CONSTANT 1970 PRICES)

PRIVATE CONSUMPTION	3.5
GOVERNMENT CONSUMPTION	2.5
INVESTMENT IN EQUIPMENT	6.5
CONSTRUCTION	4.5
CHANGES IN INVENTORIES 1/	PLUS 0.2
EXPORTS	4.6
IMPORTS	6.9
NET FOREIGN BALANCE 1/	MINUS 0.5
GNP	3.3

1/ SWING FROM 1978 AS A PERCENTAGE  
OF 1978 GNP

WE ASSUME THAT THE PROPOSED TAX REDUCTIONS AND  
INCREASED CHILDREN ALLOWANCES PROPOSED BY THE GOVERNMENT  
WILL HELP TO MAINTAIN THE INCREASE IN PERSONAL  
CONSUMPTION AT THE 1977 LEVEL DESPITE A REDUCTION IN  
THE INCREASE OF SOCIAL SECURITY PENSIONS. GOVERNMENT  
CONSUMPTION EXPENDITURES ARE NOT EXPECTED TO INCREASE  
VERY STRONGLY. OUR RELATIVELY STRONG PROJECTED  
INCREASE IN INVESTMENT IN EQUIPMENT COULD BE SOMEWHAT  
OPTIMISTIC, BUT IT STILL IS FAR BELOW BOOM PROPORTIONS.  
IN OUR VIEW, IT CONSTITUTES MAINLY A LIKELY STEADY PICK  
UP IN REPLACEMENT AND RATIONALIZATION INVESTMENTS.

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R 231940Z AUG 78  
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 AMEMBASSY LONDON  
 AMEMBASSY OTTAWA  
 AMEMBASSY PARIS  
 AMEMBASSY ROME  
 AMEMBASSY TOKYO

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EVEN IF INVESTMENT SHOULD INCREASE BY UP TO ONE PERCENTAGE POINT LESS, THIS WOULD NOT HAVE A MAJOR IMPACT ON OUR GNP PROJECTION. WE BELIEVE THAT CAPACITY LIMITATIONS WILL KEEP INCREASES IN THE CONSTRUCTION SECTOR TO ABOUT 4.5 PERCENT. IMPORTS OF GOODS AND SERVICES ARE PROJECTED TO INCREASE AT ABOUT 2.1 TIMES THE RATE OF GNP (AS COMPARED TO 2.5 TIMES IN 1978) AND THUS ARE RELATIVELY CONSERVATIVE, WHILE THE VOLUME OF GERMAN EXPORTS IS PROJECTED TO INCREASE SOMEWHAT BELOW THAT ASSUMED FOR WORLD TRADE. THIS RESULTS IN A PROJECTED CONSTANT PRICE NET FOREIGN BALANCE OF DM 19.5 BILLION AS COMPARED TO 23.5 BILLION IN 1978. THE FOURTH QUARTER 1978 TO FOURTH QUARTER 1979 INCREASE IN GNP, AT 3.2 PERCENT, CLOSELY PARALLELS THAT OF 1979 OVER 1978.

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5. ON A HALF YEARLY BASIS, OUR 1979 PROJECTION BREAKS DOWN AS FOLLOWS:

TABLE IV  
 1979 GERMAN REAL GNP  
 (PERCENTAGE INCREASE OVER PREVIOUS  
 HALF YEAR AT ANNUAL RATES, SEASONALLY  
 ADJUSTED AT CONSTANT 1970 PRICES)

	1ST HALF	2ND HALF
PRIVATE CONSUMPTION	4.9	2.0
GOVERNMENT CONSUMPTION	3.8	0.5
INVESTMENT IN EQUIPMENT	7.7	5.9

CONSTRUCTION	3.2	0.0
INVENTORIES 1/	0.3	0.1
EXPORTS	4.8	4.3
IMPORTS	8.0	4.5
NET FOREIGN BALANCE 1/	MIMUS 0.4	-
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GNP	4.6	1.9
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1/ SWING FROM PREVIOUS HALF YEAR AS A PERCENTAGE  
OF PREVIOUS HALF YEAR'S GNP

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THE PRONOUNCED DIFFERENCE BETWEEN THE PROJECTED GROWTH  
OF THE FIRST AND SECOND HALF IS MAINLY DUE TO THE FACT  
THAT WE EXPECT MOST EXPANSIONARY FACTORS TO HAVE THEIR  
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MAJOR GROWTH IMPACT DURING THE FIRST HALF. THE TAX  
REDUCTIONS AND CHILDREN'S ALLOWANCES ARE SCHEDULED TO  
BECOME EFFECTIVE JANUARY 1ST AND WE HAVE PROJECTED  
PARTICULARLY THE LATTER TO BE CONVERTED INTO INCREASED  
SPENDING WITHOUT MUCH DELAY. SPENDING UNDER THE GOVERN-  
MENT'S MEDIUM TERM INVESTMENT PROGRAM ALSO SHOULD FINALLY  
HIT A PEAK DURING THE FIRST HALF OF 1979. THE FIRST  
QUARTER ALSO WILL RECEIVE A BOOST BY AN ABNORMALLY LARGE  
NUMBER OF WORKING DAYS WHICH, HOWEVER, WILL BE OFFSET BY  
LESS THAN NORMAL WORKING DAYS DURING THE SECOND QUARTER.  
FOR THE SECOND HALF WE FORESEE FEWER ADDITIONAL STIMULI,  
PARTICULARLY IN THE LARGE PERSONAL CONSUMPTION AND

CONSTRUCTION SECTORS. IF, AS PROPOSED AND HERE  
ASSUMED, THE VALUE ADDED TAX INCREASE BECOMES EFFECTIVE  
ON JULY 1ST THIS ALSO REDUCES THE FISCAL STIMULUS  
DURING THE SECOND HALF.

6. AS WE REPORTED IN BONN 14988, THE GERMAN GNP  
STATISTICS FOR 1975-77 HAVE RECENTLY BEEN REVISED.  
THESE REVISIONS HAVE NOT YET BEEN INCORPORATED INTO  
BUNDESBANK'S SEASONAL ADJUSTED SERIES OR EXTENDED TO THE  
FIRST QUARTER OF 1978 ON EITHER A SEASONALLY ADJUSTED  
OR SEASONALLY UNADJUSTED BASIS. FOR THE PURPOSE OF  
THIS PROJECTION WE THEREFORE HAVE HAD TO MAKE OUR OWN  
ROUGH ESTIMATES OF SEASONALLY ADJUSTED 2ND HALF AND  
4TH QUARTER 1977 GERMAN GNP AS WELL AS FOR REVISED

SEASONALLY ADJUSTED FIRST QUARTER 1978 GNP WHICH  
NORMALLY WOULD BE AVAILABLE AT THIS TIME OF YEAR. THE  
PROJECTIONS AT THIS TIME THEREFORE OF NECESSITY CONTAIN  
A GREATER THAN NORMAL MARGIN OF ERROR. WE ARE  
NEVERTHELESS SUBMITTING THEM TO MEET THE NEEDS OF  
WASHINGTON END USERS IN PREPARATION FOR THE IMF/IBRD  
MEETINGS AND WILL SUBMIT REVISIONS, IF NECESSARY, AFTER  
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SEASONALLY ADJUSTED GERMAN DATA FOR THE SECOND HALF  
OF 1977 AND THE FIRST HALF OF 1978 BECOME AVAILABLE,  
PROBABLY TOWARD THE END OF OCTOBER.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** GNP, ECONOMIC ESTIMATES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 23 aug 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1978BONN15377  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D780345-0714  
**Format:** TEL  
**From:** BONN  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1978/newtext/t19780830/aaaaaymh.tel  
**Line Count:** 403  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
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**Message ID:** 5321a45c-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION EUR  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 8  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 05 may 2005  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** N/A  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 1639833  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** EMBASSY FORECAST OF 1978 AND 1979 GERMAN GNP  
**TAGS:** EFIN, ECON, GE  
**To:** STATE TRSY MULTIPLE  
**Type:** TE  
**vdkgvwkey:** odb://SAS/SAS.dbo.SAS\_Docs/5321a45c-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014